This course applies the tools of microeconomics to the analysis of policy issues in education. After an introduction to the analytical and empirical toolkit that economists draw upon to study education, we apply these methods to questions such as: how do individuals decide how much education to pursue? What school resources have the greatest impact on students' test scores and other life outcomes? Do class sizes matter? How do teacher labor markets operate? How are schools funded, and how have major finance reforms of the past four decades affected outcomes and school behaviors? Throughout the course, particular attention will be paid to the empirical methods social scientists use to rigorously test the effects of education policies and to make predictions about the impact of future policy changes.

A prior introductory course in statistics, econometrics, or quantitative methods is highly recommended. An undergraduate or graduate course in microeconomics would be beneficial, but is not required (I will assume you have no training whatsoever in economics). If you are concerned about your preparation for this course, please see Prof. Corcoran at the beginning of the semester.

There is currently no textbook dedicated to the economics of education (though several are in progress). Therefore, all assigned readings will consist of book chapters or journal articles from a variety of sources (a reading list follows). Most if not all of the journal articles are available for download through the NYU Library e-journal portal, provided you are connected via a campus computer or are logged in with your NYU NetID, at: http://library.nyu.edu/collections/find_ejournals.html.

I have attempted to assign readings that are accessible to any graduate student with a modicum of training in quantitative methods and some institutional knowledge of U.S. education policy. That said, some of the assigned articles may seem impossibly technical. Rest assured that I do not expect you to fully understand research papers with a sophisticated econometric content. Rather, you should read these articles with the following objectives:

- be able to identify the specific research question that is being addressed, or hypothesis that is being tested
- be able to place this research question in the context of our class discussions
- be able to explain—verbally, not mathematically—the methods the author(s) are using to tackle this research question or test this hypothesis
- where a specific hypothesis is being tested—for example, “x has a positive (negative) and significant effect on y”—what does the author do to convince the reader that this effect is a causal one?
- what data does the author use (if any) to address their research question?

The bulk of our class discussion will focus on the assigned readings, so please prepare for each meeting by reading the assigned articles before class.
Your grade for this course will be determined as follows: three problem sets (5% each for a total of 15%), written reviews of six recent economic analyses of education policy issues (10% each for a total of 60%) and a written midterm examination (25%). To pass the course, you must complete all problem sets, research reviews, and the midterm exam.

The problem sets are designed to give you practice with the analytical tools introduced in class, and thus will be assigned early in the semester. Many concepts will be introduced in the first half of the course that are key to your success in the remainder of the course. Thus, I have elected to give a midterm examination rather than a final to ensure that everyone is on track at the mid-semester point.

The research reviews will consist of written syntheses (4-5 pages each) that describe and critically analyze a piece of existing empirical research on education from the economics and public policy literature. I will provide a list of suggested papers, or you may suggest your own (subject to my approval). More details on the research reviews will be provided at a later date.

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**COURSE OUTLINE**

I. Introduction to the Economics of Education—A Brief Survey

II. Thinking Like an Economist—Concepts and Basic Analytical Tools of Economics
   a. Markets: Demand, Supply and Equilibrium
   b. Markets: The Labor Market

III. Private Investments in Education—the “Demand Side” of Education
   a. The Economist’s Empirical Toolbox (a diversion)
   b. The Economic Return to Schooling
   c. The Economic Return to a GED

IV. Why is Education Publicly Provided? An Economic Rationale

V. The Education Production Function—the “Supply Side” of Education
   a. The Production Function
   b. The Education Production Function
   c. “Does Money Matter?”
   d. Does Class Size Matter?
   e. Teachers
   f. The Role of Peers

VI. More on Teacher Labor Markets and Teacher Labor Market Policies

VII. School Finance
   a. An Overview of School Finance in the U.S.
   b. Economies of Scale and the Cost of Education
   c. The Good, the Bad and the Ugly of School Finance Reform

VIII. Market-Based Education Reforms
   a. Overview
   b. Vouchers
   c. Charter Schools

IX. School Accountability Reforms
<table>
<thead>
<tr>
<th>Thursday</th>
<th>Introduction to the Economics of Education—A Brief Survey</th>
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<tbody>
<tr>
<td>September 9</td>
<td>The economic approach to the study of education and education policy.</td>
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**Thinking Like an Economist: Concepts and Basic Analytical Tools of Economics**
Economic models, opportunity cost, marginal and cost-benefit analysis.

(*) [introductory microeconomics textbook TBD—relevant chapter(s)]

<table>
<thead>
<tr>
<th>Thursday</th>
<th>Markets: Demand, Supply, and Equilibrium</th>
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<tr>
<td>September 14</td>
<td>Applying the economist’s model of consumer and producer behavior to markets. How resources are allocated and prices determined in free markets.</td>
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<td>([introductory microeconomics textbook TBD—relevant chapter(s)])</td>
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<table>
<thead>
<tr>
<th>Thursday</th>
<th>Markets: The Labor Market</th>
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<tbody>
<tr>
<td>September 14</td>
<td>What determines the supply of and demand for labor, how wages are determined.</td>
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<tr>
<td></td>
<td>([introductory microeconomics textbook TBD—relevant chapter(s)])</td>
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**Private Investments in Education—the “Demand Side” of Education**
Human capital theory, and the “signaling” model of education and wages.


**The Economist’s Empirical Toolbox**
Correlation vs. causation. Linear regression, interpreting regression coefficients and standard errors, omitted variables bias, natural and quasi-experiments. How to critically read empirical research.

| Thursday  
| September 21 | **The Economic Return to Schooling**  
|  | How economists measure the private benefits to schooling, and the difficulties in doing so.  
| **The Economic Return to a GED**  
|  | The methodological difficulties in estimating the returns to obtaining a GED; the GED as an example of the “signaling” model of education.  
| Thursday  
| September 28 | **Why is Education Publicly Provided?**  
|  | Externalities and public investment in education, asymmetric information, compulsory schooling laws, and the civic returns to education. An economic rationale for government involvement in education.  
|  | (*) [introductory microeconomics textbook TBD—relevant chapter on externalities]  
The Production Function
Basic concepts of firm production; inputs, outputs, input substitution, diminishing returns.

(*) [introductory microeconomics textbook TBD—relevant chapter(s)]

The Education Production Function—the “Supply Side” of Education
Inputs and outputs of the education process, measuring school quality, the black-white test score gap.


The Education Production Function—“Does Money Matter?”
Estimating the relationship between school spending and student outcomes.


Thursday October 5

The Education Production Function—Does Class Size Matter?
Estimating the relationship between class size and student outcomes. The Tennessee STAR experiment.


The Education Production Function—Teachers
Measures of teacher quality, which measurable attributes of teachers contribute the most to student outcomes.


The Education Production Function—The Role of Peers
Estimating the role of peers on student test scores and other outcomes. School and residential segregation.


[survey article on peers]

<p>| Thursday October 12 | Midterm Examination |</p>
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<tr>
<th>Thursday October 19</th>
<th>More on Teacher Labor Markets and Teacher Labor Market Policies</th>
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<td>The quality of teachers, factors that influence the demand for and supply of teachers, the analysis of merit pay policies. The role of teachers unions.</td>
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<th>Thursday October 26</th>
<th>An Overview of School Finance in the United States</th>
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<td>The roles of local, state, and federal government in financing public K-12 education. Legal challenges to state school finance systems.</td>
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**Economies of Scale and the Cost of Education**
Costs of producing education, the structure of school districts in the U.S.

(*) [introductory microeconomics textbook TBD—relevant chapter on cost functions]


**Thursday November 2**

**The Good, the Bad and the Ugly of School Finance Reform**
The impact of state school finance reform on the level and distribution of spending, student achievement, private school enrollment, property values and the behavior of school districts.


**Thursday November 9**

**Market-Based Education Reforms: An Overview**
The economic rationale for school choice. Framework for evaluating school choice policies.


**Market-Based Education Reforms: Vouchers**
Evidence on the effectiveness of private school vouchers in raising school quality and student performance.


| Thursday  
| November 16 | **Market-Based Education Reforms: Charter Schools**  
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| Evidence on the effectiveness of charter schools in raising school quality and student performance. The impact of charter schools on student sorting. The politics of charter schools.  
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| Thursday  
| November 23 | **No Class: Happy Thanksgiving!**  
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| Thursday  
| November 30 | **School Accountability Policies**  
|  
| Incentives and the economic rationale for school accountability, measuring student performance, evaluating existing accountability programs, the unintended consequences of school accountability.  
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| Thursday  
  December 7 | *(Last Class Meeting)* |
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<td><strong>Additional Topics, TBD</strong></td>
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<td><strong>Public vs. Private Schools:</strong> possible readings include: Derek Neal (JOLE 1997), Evans and Schwab (QJE 1993)</td>
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<tr>
<td><strong>School Readiness, Head Start and Preschool Education</strong></td>
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